

Message Text

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ACTION EUR-12

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C O N F I D E N T I A L MADRID 5403

E.O. 11652: GDS
TAGS: ECON, EFIN, PINT, SP
SUBJECT: SOCIALIST ECONOMIST PREDICTS FAILURE OF ECONOMIC PROGRAM

REF: MADRID 5347

1. SUMMARY: ACCORDING TO SOCIALIST PSOE ECONOMIST, GOVERNMENT'S PROGRAM CANNOT SUCCEED BEFORE NEW NATIONAL ELECTIONS. THEREFORE BEST PSOE STRATEGY IS TO DISASSOCIATE ITSELF FROM GOVERNMENT'S ATTEMPTS TO DEAL WITH CURRENT ECONOMIC PROBLEMS. END SUMMARY.

2. IN LENGTHY CONVERSATION WITH EMBOFFS JULY 14, LEADING MEMBER OF PSOE ECONOMIC CADRE, MIGUEL BOYER, COMMENTED ON GOVERNMENT'S ECONOMIC PROGRAM AND ON PSOE POSITION FOR COMING MONTHS. IN ADDITION TO BEING DIRECTOR OF STRATEGIC PLANNING FOR UNION EXPLOSIVOS RIO TINTO, SPAIN'S LARGEST WHOLLY PRIVATE INDUSTRIAL COOPERATION, BOYER HAS BEEN A PSOE MEMBER FOR SEVERAL YEARS. PRIOR TO ELECTIONS, HE BROKE WITH THE PSOE OVER DISAGREEMENT WITH MARXIST ELEMENTS IN THE PARTY. HE IS NOW BACK IN THE FOLD AS HEAD OF PSOE ECONOMIC TASK FORCE ALTHOUGH NOT A MEMBER OF THE EXECUTIVE COMMITTEE.

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3. BOYER WAS ELATED OVER STRONG ELECTION PERFORMANCE OF PSOE AND BAD SHOWING OF COMMUNISTS. HE SEES SPAIN AS NOW IN A TWO PARTY SYSTEM WITH THE PSOE A MAJOR CONTENDER TO GOVERN. WHILE HE HOLDS HIS FORMER PROFESSOR FUENTES QUINTANA IN RESPECTFUL ADMIRATION, HE IS PESSIMISTIC THAT THE GOVERNMENT'S ECONOMIC

PROGRAM WILL SUCCEED. HE BELIEVES THE GOVERNMENT INTENDS A DRASTICALLY RESTRICTIVE MONETARY POLICY COMBINED WITH ATTEMPTS TO CURB WAGE INCREASES WHILE OTHERWISE ALLOWING PRICES TO RISE TO CURB DEMAND. HE BELIEVES THAT SUCH A PLAN, EVEN IF SUCCESSFUL, WOULD REQUIRE 3 TO 4 YEARS TO SHOW ANY REAL IMPROVEMENT IN SERIOUS AND GROWING UNEMPLOYMENT OR INFLATION. THE PLAN WILL FAIL, HE BELIEVES, BECAUSE WAGE RESTRAINT WILL BE UNOBTAINABLE AND BECAUSE THE GOVERNMENT WILL BE FORCED INTO NEW NATIONAL ELECTIONS WITHIN A YEAR AND A HALF. BELIEVING THIS, ACCORDING TO BOYER, THE PSOE WILL NOT PUBLICLY COOPERATE OR IDENTIFY ITSELF WITH ECONOMIC POLICIES, BUT WILL NOT SEEK TO HAMSTRING THE GOS.

4. BOYER PLACED GREAT EMPHASIS ON THE DIFFICULTY OF ANY GOVERNMENT, AND PARTICULARLY A "CONSERVATIVE" ONE TO OBTAIN LABOR COOPERATION FOR WAGE RESTRAINT. HE POINTED OUT THAT PLANT COMMITTEE ELECTIONS, POSSIBLY IN OCTOBER, TO DECIDE ON ORGANIZATIONAL REPRESENTATION WILL ADD TO PRESSURE FOR HIGHER WAGE DEMANDS AND RISING INFLATION WILL MAKE THESE DEMANDS IMPOSSIBLE TO COUNTER. BOYER AGREES WITH MUCH OF GOVERNMENT'S PROGRAM, SUCH AS FISCAL REFORM WHICH HE SAID WAS BORROWED FROM PSOE, BUT HE WAS NOT FORTHCOMING IN SUGGESTING ALTERNATIVE MEASURES GOVERNMENT SHOULD TAKE TO DEAL WITH

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IMMEDIATE SITUATION OTHER THAN THE EMPHASIZE THAT HE AND THE PSOE CONSIDER UNEMPLOYMENT THE MOST PRESSING PROBLEM.

5. COMMENT: BOYER'S ASSESSMENT OF GOVERNMENT'S ECONOMIC PROGRAM IS LARGEMLY SPECULATIVE SINCE MOST SPECIFIC MEASURES TO BE ADOPTED ARE NOT YET KNOWN. HIS PREDICTION OF FAILURE HINGES MORE THAN ANYTHING ON HIS ESTIMATE OF RESTRICTED POLITICAL TIME-FRAME DURING WHICH HE BELIEVES ECONOMIC IMPROVEMENT CAN BE ACHIEVED. WHILE EMPHASIZING THAT PSOE WOULD REFUSE TO BE IDENTIFIED AS COOPERATING WITH GOVERNMENT IN ECONOMIC PROGRAM, BOYER WAS CAREFUL TO AVOID SUGGESTING ANY EFFORT WOULD BE MADE TO OBSTRUCT IMPLEMENTATION OF MEASURES WHICH MAY BE ADOPTED. AT THE SAME TIME, HE GAVE THE IMPRESSION THAT THE PSOE WILL BE IN NO POSITION TO IMPOSE RESTRAINT ON THE UGT WITHOUT ENDANGERING ESSENTIAL LABOR SUPPORT. THE QUESTION REMAINS WHETHER LABOR CAN BE INDUCED TO MODERATE WAGE DEMANDS IN EXCHANGE FOR ECONOMIC AND SOCIAL REFORM. STABLER

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